THE CLUB FOR GROWTH

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September 6, 2002

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Federal Communications Commission
Office of the Secretary

The Honorable Michael Powell
Chairman, Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Dear Chairman Powell:

On August 2, I wrote to you regarding the Club for Growth's position to the FCC TV tax mandate. I was discouraged to see that the FCC has approved this anti-consumer regulation.

I have not received a reply from my letter, and I would request a reply.

In the meantime, I am enclosing an article that I published in the *Washington Times* that spells out the case against the FCC TV Tax.

Sincerely,

Stephen Moore

Enclosure

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BRAIN TRUST

'Television Tax' Is A Rerun Of Regulatory Interference

BY STEPHEN MOORE

FOR INVESTOR'S BUSINESS DAILY

Attention Wal-Mart shoppers: The Federal Communications Commission will decide Thursday on a new regulation that, if approved, will raise the cost of purchasing a new television by as much as $250.

Some are calling the potential policy an FCC television tax. The purpose of the regulation is to force American consumers to purchase a product they have refused to pay for voluntarily.

I am speaking of the FCC's proposed regulation that would require all new TV sets to come equipped to carry digital broadcasts. Digital TV is the newest fad in TV engineering. It will let TV sets receive DVD quality picture and sound.

Currently the digital tuners that provide this new technology aren't cheap. They can easily add between $200 and $300 to the cost of a TV – which in some cases is more than the cost of the new TV itself. This would be like the Transportation Department requiring car buyers to pay more for accessories than for the new car itself.

Free-Range Regulation

Broadcasters and some TV manufacturers that produce the tuners – Zenith, for example – are feverishly pushing the new regulation. Michael Powell, the normally free-market-oriented FCC chairman, is leaning toward approving the regulation that would prohibit stores such as Wal-Mart and Circuit City from selling TVs without the tuner after 2006.

We have here a case of a regulatory agency run amok. The FCC was, after all, created to safeguard consumer interests, but in this case it might mandate a new expensive technology, whether consumers want it or not.

Most American households already have access to cable or satellite TV. These viewers have mostly shunned the digital TV fad. Requiring these consumers t[illegible] buy [illegible] with their TVs makes as much sense as forcing McDonald's customers to buy the fries if they want the Big Mac; or Apple to sell computers with Intel inside; or even baseball card packs to come with a stick of gum.

The FCC won't admit it, but it is about to approve a corporate welfare giveaway – a multimillion dollar income transfer from the TV-viewing public to the broadcasters and TV makers, as enforced by Uncle Sam. The broadcasters' answered prayers for government help are no different from recent congressional actions to force taxpayers and consumers to pay higher prices to rescue other beleaguered and undeserving industry groups, ranging from steel producers to asparagus growers.

To listen to the sanctimonious "public interest" arguments of the broadcasters, one might think they were selling the polio vaccine, not a prettier picture on a TV screen.

Forced To Buy Lemonade

The regulation's supporters disingenuously justify their federal protection racket by arguing that the economies of scale from mass purchases can lower costs to consumers. No doubt that's true.

But that argument could be made to justify government interference in every new business and industry. If the government would require people to buy lemonade from my son's roadside stand, he can lower his costs and prices too.

To listen to the sanctimonious "public interest" arguments of the broadcasters, one might think they were selling the polio vaccine, not a prettier picture on a TV screen.

The FCC will be doing a great disservice to consumers if it falls in line with the TV broadcasters and manufacturers. There is no market failure here that needs to be redressed.

M[illegible] Of The Market

History proves just the opposite. One of the hallmarks of the new high-technology age is how rapidly consumer electronic innovations become available to the mass buying public. Today, through the magic of the free market, even low-income households can afford color TV sets, cellular telephones, CD players, DVD players, microwave ovens, Internet access, personal compute[illegible] n and on and on.

The diffusion of these technologies in virtually every case occurred without government aid.

If anything, government's track re[illegible] has b[illegible] one of inhibiting the [illegible]usion of [illegible] technologies.

[illegible] case in the area of b[illegible] d[illegible] chnology. Government telecom regulations in the 1990s have shrunk the incentive for phone companies to invest in the necessary cable infrastructure to bring high-speed broadband service to tens of millions of homes and businesses that still lack access. Here, government has contributed to the digital divide in America.

As for digital TV, this new technology will become widely adopted, not when the government decrees it to be so, but when the prices fall fast enough so that Americans willingly purchase the product on their own. The FCC shouldn't stand in the way of this new technology, but it shouldn't mandate it either.

Come to think of it, it's hard to see how mandating any technology that will encourage Americans to watch more television can possibly be in the national interest.

■ Stephen Moore is a senior fellow at the Cato Institute in Washington, D.C.

New Job For Greenspan

Although Federal Reserve Chairman Alan Greenspan enjoys some tenure-like security in his job, if President Bush asked for his resignation. Recent revisions of government data reveal the extent of the current recession, which was not a soft landing.

This new information supports the contention of IBD editors and other [illegible] time [illegible] damage was done (not just hindsight), that interest rates were tightened too much and too fast, and that they were lowered too little and too slowly.

Moreover, Greenspan's overt interest i[illegible] [illegible]ering [illegible] was [illegible]appropriate meddling outside monetary policy that has done much damage. The productive, working folks who will now postpone retirement don't have time to hit the streets in protest. They will provide the sweat and muscle to pull the country back out of this mess.

I think it would give them some satisfaction to see the author of the problem put out on the lecture circuit where he can explain his mistakes to sympathetic audiences instead of using his bully pulpit to create economic waves.

Albert Holt, *Chester, Md.*

Dereliction Of Duty

If the president and Congress were heads of a company that was running i[illegible] business b[illegible] a fi[illegible] [illegible] I d[illegible] any would take a vacation, a[illegible] in Growth Agenda (Editorial, Tuesday), until operations were settled and mov[illegible] [illegible] citizens, and elected officials are paid to do an honorable job. Many politicians forget what they are elected to do.

Rick Vogel, via *e-mail*

Want Fries With That lawsuit?

If asked to define a frivolous lawsuit, I would choose one filed by the obese against fast-food restaurants as a classic example. Why do the courts agree to hear these cases? The suits need to make sense. Blaming a restaurant for making your nutritional choices is nonsense beyond belief. The argument is so full of holes, anyone could defend against it.

This apparent lack of reasoning ability by some courts is terrifying to many of us. Especially upsetting is the fact that the quote from Plaintiff No. 1 in "Super-size It" (Editorial, Tuesday) was evidence against his claim: He admitted a lack of interest in his own nutritional needs. I hope the court does not believe that he actually thought fast food was good for him.

Lawmakers must be made aware of th[illegible] outrage of the American public. I hope the press can help by giving this the atte[illegible]

The Washington Times ** WEDNESDAY, AUGUST 14, 2002 / PAGE A13

STEPHEN MOORE

FCC hiking the cost of your next TV

So much for the myth that federal regulators protect the little-guy consumer from big business.

On Aug. 8, the Federal Communications Commission (FCC) approved a new rule that will raise the cost of purchasing a new TV set by as much as $250. The purpose of this FCC TV tax is to force American consumers to purchase a product they have refused to pay for voluntarily. This is a naked case of regulatory corporate welfare: putting the financial interests of industrv lobbyists ahead of the consumer:

The new FCC regulation will require all new TV sets to come equipped with the capacity to carry digital broadcasts. Digital TV is the newest fad in TV engineering. It will allow TV sets to eventually receive DVD quality picture-and sound. Currentlythe "digital tuners" to provide this new technology t
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Broadcasters and some TV manufacturers who produce the tuners — Zenith, for example — are feverishly pushing the new regulation.

Michael Powell, the normally free-market-leaning FCC commissioner, is leaning toward approving the new law that would prohibit stores like Wal Mart and Circuit City from selling TVs without the tuner after 2006.

The FCC was, of course, created to safeguard consumer interests, but in this case the agency will mandate a new expensive technology, whether consumers want it or not. Most American households already have access to cable or satellite TV. These viewers have mostly shunned the digital TV fad. Requiring these consumers to buy tuners with their TVs makes as much sense as forcing McDonalds customers to buy the fries if they want the Big Mac; or Apple to sell computers with Intels inside, or even baseball card packs to come with a stick of eum.

We have her;! a multimillion-dollar income transfer from the TV viewing public to the broadcasters, with Uncle Sam as the policeman and enforcer. Once again, the Bush administration — in this case, the usually sensible FCC Chairman Michael Powell — placingthe special interest ahead of the national interest. In this case, the broadcasters' rush for special favors from government are no different or less justified than the handouts to the steel industry, timber companies, and million-dollar farmers.

The broadcasters disingenuously justify their federal protection racket by arguing that the economies of scale from mass purchases can lower costs to consumers. No doubt that's true. But, of course, that argument could be made to justify government interference in every new business and industry If the government would require people to buy lemonade from my son's roadside stand, he car lower his costs and prices too. To listen to the sanctimonious "public interest" arguments of the broadcasters, one might think they were selling the polio vaccine, not a prettier picture on a TV screen.

The FCC's case for this product mandate is weak in the extreme. There is no market failure here that needs to be redressed. In fact, history proves just the opposite. One of the hallmarks of the new hieh-technoloqy aee is how rapidly cor umer electronic innovations bec me av ailable to the mass buying public. Today, through the magic of the free market, even low-income households can afford color TV sets, cellular telephones, CD players, DVD players, microwave ovens, the Internet, personal computers, and on and on. The diffusion of these technologies in virtually every case, occurred without government aid.

If anything, government's track record has been one of inhibiting the diffusion of exciting technologies. This has indisputably been the case in the area of broad-band technology. Government telecom regulations in the 1990s have shrunk the incentive for phone companies to invest in the necessary cable infrastructure to bring high-speed broad-band service to tens of millions of homes and businesses that still lack access. Here government has contributed to the digital divide in America.

As for digital TV, this new technology will become widely adopted, not when the government decrees it to be so, but when the prices fall fast enough that Americans willingly purchase the product on their own. The FCC shouldn't stand in the way of this new technology, but it shouldn't mandate it either.

When the consumer is king, product quality improves and prices fall.

The FCC's latest assault against consumer sovereignty should be overruled by Congress — and before the next station break.

Stephen *Moore* is *a* senior fellow *at* the *Cato* Institute

The Case Against the FCC TV Tax

Stephen Moore
Senior Fellow
Cato Institute
August 1, 2002

Executive Summary

While many interest groups argue loudly and publicly about broadcast programming that is on television, there is a heated, yet somewhat specialized debate going on right now at the Federal Communications Commission (FCC) about what should be in televisions.

The FCC is considering approval of a new rule that will raise the cost of purchasing a new TV set by as much as $250. The purpose of this FCC TV tax is to force American consumers to purchase a product they have refused to pay for voluntarily. This is a naked case of regulatory corporate welfare: putting the financial interests of industry lobbyist's ahead of the consumer.

The new FCC regulation is anti-consumer. It will require all new TV sets to come equipped with the capacity to carry digital broadcasts. Digital TV is the cewest fad in TV engineering. It will allow TV sets to eventually receive DVD quality picture and sound. Currently the "digital tuners" to provide this new technology aren't cheap. They can easily add between $200 and $300 to the cost of a TV set-which in some cases is more than the cost of the new TV itself. So this would be like the Transportation Department requiring car buyers to pay more for accessories than for the new car itself.

Broadcasters and some TV manufacturers who produce the tuners-Zenith, for example-are feverishly pushing the new regulation. Stores like Walmart and Circuit City will now be prohibited from selling TVs without the tuner after 2006.

The FCC was created to safeguard consumer interests, but in this case the agency will mandate a new expensive technology, whether consumers want it or not. Most American households already have access to cable or satellite TV. These viewers have mostly shunned the digital TV fad. Requiring these consumers to buy tuners with their TVs makes as much sense as forcing McDonalds customers to buy the fries if they want the Big Mac; or Apple to sell computers with Intels inside, or even baseball card packs to come with a stick of gum.

We have here a multi-million dollar income transfer from the TV viewing public to the broadcasters, with Uncle Sam as the policeman and enforcer. Once again, the Bush administration-in this case, the usually sensible FCC chairman Michael Powell-placing the special interest ahead of the national interest. In this case the broadcasters' rush for special favors from government are no different or less justified than the hand outs to the steel industry, timber companies, and million dollar farmers.

The broadcasters disingenuously justify their federal protection racket by arguing that the economies of scale from mass purchases can lower costs to consumers. No doubt that's true. But, of course, that argument could be made to justify government interference in every new business and industry.

The FCC's case for this product mandate is weak in the extreme. There is no market failure here that needs to be redressed. In fact, history proves just the opposite. one of the hallmarks of the new high technology age is how rapidly consumer electronic innovations become available to the mass buying public. Today, through the magic of the free market, even low income households can afford colored tv sets, cellular telephones, CD players, DVD players, microwave ovens, the internet, personal computers, and on and on. The diffusion of these technologies in virtually every case, occurred without government aid.

If anything, government's track record has been one of inhibiting the diffusion of exciting technologies. This has indisputably been the case in the area of broadband technology. Government telecom regulations in the 1990s have shrunk the incentive for phone companies to invest in the necessary cable infrastructure to bring high speed broad band service to tens of millions of homes and businesses that still lack access. Here government has contributed to the digital divide in America.

As for digital TV, this new technology will become widely adopted, not when the government decreees it to be so, but when the prices fall fast enough so that Americans willingly purchase the product on their own. The FCC shouldn't stand in the way of this new technology, but it shouldn't mandate it either.

Background on the Debate

FCC Chairman Michael Powell is proposing mandating that all new televisions sold in the United States include a special tuner that will allow the owner to receive digital television broadcasts over the air, using an antenna. This mandate is intended to help spur the transition to digital television, which is, in fact, a worthy goal. The transition will open numerous opportunities in the economy, providing consumers more choices for entertainment and educational products and services, while spurring innovation among both manufacturers and content providers. At the same time, once the transition is complete, and the analog spectrum is opened to new uses, there will be further economic opportunities in the wireless market.

However, as we have often seen, government mandates generally serve to slow the rollout of new technologies. This is certainly the case in the broadband arena, in which regulations have created disincentives to investment. If this digital tuner mandate is instituted, it will amount to an unnecessary and detrimental government intervention into the private market, which will artificially raise prices and weaken certain sectors of the economy.

Lack of Consumer Demand

Mandating the inclusion of digital tuners will force manufacturers to create, and consumers to buy, items that they may not need or want. At this time, digital tuners are already widely available in the marketplace. Owners of digital televisions have every opportunity to purchase a tuner at almost any electronics retailer, where more than 15 different models of tuners are available. Additionally, consumers can choose to buy digital televisions with an integrated tuner, if they choose. Nearly two dozen models of integrated products are currently available in the market today. But as you know, to date, few consumers - just over 10 percent - have chosen to buy a digital tuner.

Nevertheless, the solution here is not to force consumers to buy something they do not want. Consumer demand, not government fiat, should determine products availability and penetration. When, and if, the public decides it wants digital tuners included in their television sets the market will respond accordingly. However, there is no evidence that the public will ever make such demands. Digital tuners are only used to receive television signals over the air. Only 10 to 15 percent of American households receive their television signals over the air. Consequently, it is likely that 85-90 percent of consumers will be more inclined to seek out means that will enable them to receive digital signals either over cable or satellite, which are their primary means of receiving television signals.

Regardless, this is a decision that should be made by in the free marketplace by individual shoppers and the broader market, not federal regulators.

Adverse Economic Impact

If the FCC or Congress, for that matter, mandate the inclusion of digital tuners, it will place an immediate economic burden on consumers.

lhis is never prudent public policy. Given current economic conditions, particularly declining consumer spending and confidence, now is certainly not the time for the federal government to take actions that will increase costs for manufacturers, and ultimately, the consumer.

Manufacturers estimate the costs of televisions sets will increase between $200 and $300 if a mandate is imposed. This would not represent a significant percentage increase in price for a high-end $3000 high definition television. However, it would create a significant cost burden for shoppers in the market for small or mid-sized products that can range in price between $100 and $500.

Given the fact that several million new TV sets are sold every year in the United States, we estimate that this new mandate may wind up costing the American consumer up to $400 million a year in excess expenses.

Televisions are only one product in a massive economy of consumer goods. But they are a widely held item that can be found in nearly every household in the country. It is safe to assume that fewer consumers will be in the market for a new television if, as a result of the proposed mandate, they are forced to pay 50 percent, or even 25 percent more for television.

A government mandated price increase will also adversely impact the television producers and retailers, which include many small and medium sized businesses. Lower sales will mean fewer jobs in the retail and wholesale sectors.

We liken the FCC proposed tuner mandate as a TV tax. It raises cost to producers and raises prices to consumers. Although the broadcasters and some officials at the FCC reject this terminology, the truth is the mandate would have precisely the same impact as $200 to $300 tax levied on TV purchases after 2006.

Conclusion

The primary issue at stake in this debate is consumer sovereignty. Do we need or want government to intervene in a consumer electronic market place where innovation and falling costs have been the norm, not the exception. There is no market failure here and thus no case for government intervention. TV tuners are available to consumers who wish to purchase them.

The argument is made that the tuner mandate is necessary to accelerate digital TV in order to free up broadcast spectrum for higher value added uses. A more rational solution to the problem of inefficient allocation of the spectrum is to hold auctions for ailocated spectrum. This will ensure that this limited resource is allocated to its most economically efficient usage. In any case, the inefficient allocation of the spectrum does not warrant a TV tuner mandate that would victimize the American consumer.

The free market should be permitted to serve consumer interests by offering them the goods and services they want, when they want them. The government does not require television set producers To include a remote control in ever set manufactured today. But most new sets do include a remote control. Why? Because consumers want them, and they are unlikely to purchase products that do not include them.
The same will hold true in the transition to digital television. As prices for sets decline and more compelling programming becomes available, consumers will demand easier access to digital signals. Given current viewing habits, it is likely they will demand easier access over cable, as opposed to over the air.

But whatever they decide, the market will respond accordingly Any interference from the FCC, or any other government entity, will only distort the market, punishing taxpayers and impeding economic efficiency and invading consumer sovereignty.

Stephen Moore is a senior fellow in economics at the Cato Institute. He is also the president of the Club for Growth in Washington, D.C.

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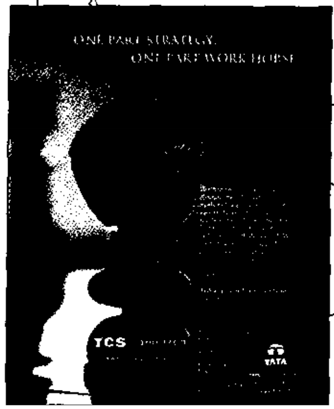

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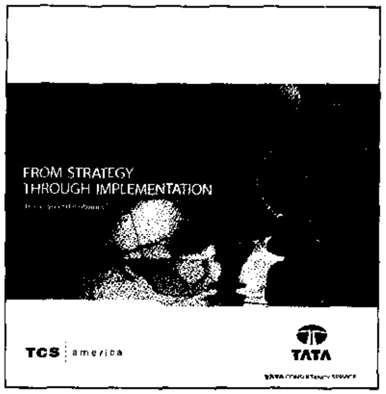

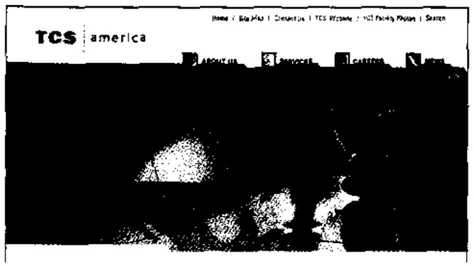

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COMMUNICATIONS

Defining and Refining TCS America

Creating Brand Equity

After operating in North America for over 15 years, TATA Consultancy Services (TCS), Asia's largest software technology consulting firm, made a strategic decision to raise its corporate profile. Against a backdrop of an impending IPO, it was imperative to define TCS as an American entity with the domain expertise and IT capabilities it garnered through representing Fortune 100 companies worldwide.

The first challenge was to establish an American identity to which the financial community, media, and clients could more easily relate. TCS America was launched through an integrated campaign that coordinated marketing and sales support, public relations, and advertising, as well as basic identity pieces such as an annual report and a new North American Web site.

TCS America's corporate "look and feel" was designed to be consistent with the graphic identity of the parent company in India. while asserting a strong US. flavor. Visual metaphors for marketing and branding materials drew from images of chess pieces, conveying the combined qualities of strategic insight and hard work.

The results were impressive. 2001 revenues increased 85 percent in North America and currently account for more than 60 percent of TCS' revenue overall.

For more information on Dittus and its services, please contact
Debra Cabral, executive vice president, at
[202] 775.1401 or debra.cabral@dittus.com.